1. Three of the steps in management's decision process are: (1) review results of decision, (2) determine and evaluate possible courses of action, and (3) make the decision. The steps are prepared in the following order.
   - A. (1), (2), (3).
   - B. (3), (2), (1).
   - C. (2), (1), (3).
   - D. (2), (3), (1).

2. Incremental analysis is the process of identifying the financial data that:
   - A. do not change under alternative courses of action.
   - B. change under alternative courses of action.
   - C. are mixed under alternative courses of action.
   - D. No correct answer is given.

3. It costs a company $14 of variable costs and $6 of fixed costs to produce product Z200 that sells for $30. A foreign buyer offers to purchase 3,000 units at $18 each. If the special offer is accepted and produced with unused capacity, net income will:
   - A. decrease $6,000.
   - B. increase $6,000.
   - C. increase $12,000.
   - D. increase $9,000.

4. It costs a company $14 of variable costs and $6 of fixed costs to produce product Z200 at full capacity. Product Z200 sells for $30. A buyer offers to purchase 3,000 units at $18 each. The seller will incur special shipping costs of $5 per unit. If the special offer is accepted and produced with unused capacity, net income will:
   - A. increase $3,000
   - B. increase $12,000
   - C. decrease $12,000
5. In a make-or-buy decision, relevant costs are:
   A. manufacturing costs that will be saved.
   B. the purchase price of the units.
   C. opportunity costs.
   D. all of the above.

6. The decision rule in a sell-or-process-further decision is: process further as long as the incremental revenue from processing exceeds:
   A. incremental processing costs.
   B. variable processing costs.
   C. fixed processing costs.
   D. No correct answer is given.

7. In a decision to retain or replace equipment, the book value of the old equipment is a(an):
   A. opportunity cost.
   B. sunk cost.
   C. incremental cost.
   D. marginal cost.

8. If an unprofitable segment is eliminated:
   A. net income will always increase.
   B. variable expenses of the eliminated segment will have to be absorbed by other segments.
   C. fixed expenses allocated to the eliminated segment will have to be absorbed by other segments.
D. net income will always decrease.

9. A segment of Hazard, Inc. has the following data.
Sales $200,000
Variable expenses 140,000
Fixed expenses 100,000
If this segment is eliminated, what will be the effect on the remaining company? Assume that 50% of the fixed expenses will be eliminated and the rest will be allocated to the segments of the remaining company.
A. $120,000 increase.
B. $10,000 decrease.
C. $50,000 increase.
D. $10,000 increase.

This is the end of the test. When you have completed all the questions and reviewed your answers, press the button below to grade the test.

Grade the Test

0% (0 out of 9 correct)

1. Three of the steps in management's decision process are: (1) review results of decision, (2) determine and evaluate possible courses of action, and (3) make the decision. The steps are prepared in the following order.
A. (1), (2), (3).
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   C. decrease $12,000
   D. decrease $3,000

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Retake Test

1. The process used to identify the financial data that changes under alternative courses of action is called incremental analysis.
2. When deciding to accept an order at a special price, variable manufacturing overhead costs are not relevant.
   - A. True
   - B. False

3. Opportunity cost is a cost that cannot be changed by any present or future decision.
   - A. True
   - B. False

4. A company should decide to process further as long as the incremental revenue from such processing exceeds the incremental costs.
   - A. True
   - B. False

5. Sunk costs are not relevant in incremental analysis.
   - A. True
   - B. False

6. When a company is deciding to retain or replace equipment, trade-in value of the existing equipment is irrelevant.
   - A. True
   - B. False
7. Book-value of existing equipment is irrelevant in a decision to retain or replace the equipment.
   □ A. True
   □ B. False

8. If a company decides to eliminate an unprofitable segment, its net income will always increase.
   □ A. True
   □ B. False

9. The key to making the best decision concerning eliminating an unprofitable segment is to focus on relevant costs.
   □ A. True
   □ B. False

10. Only quantitative factors should be used when making decisions that require incremental analysis.
    □ A. True
    □ B. False

11. Accounting’s contribution to the decision-making process occurs in all of the following steps except to:
    □ A. identify the problem and assign responsibility.
    □ B. determine possible courses of action.
    □ C. make a decision.
    □ D. review results of the decision.

12. All of the following types of decisions involve incremental analysis except:
A. make or buy.
B. allocate limited resources.
C. sell or process further.
D. All of these options are involved in incremental analysis.

13. Relevant costs in accepting an order at a special price include all of the following except:
   A. direct materials.
   B. direct labor.
   C. fixed manufacturing overhead.
   D. variable manufacturing overhead.

14. In a make or buy decision, opportunity costs are:
   A. added to the make total cost.
   B. deducted from the make total cost.
   C. added to the buy total cost.
   D. ignored.

15. The basic rule in a sell or process further decision is to process further as long as the incremental revenue is:
   A. equal to the incremental processing costs.
   B. less than the incremental processing costs.
   C. more than the incremental processing costs.
   D. more than the manufacturing cost per unit.

16. In a retain or replace equipment decision, all of the following are considered except the:
A. salvage value of the old asset.
B. book value of the old asset.
C. cost of the new asset.
D. decrease in variable manufacturing costs.

17. Which of the following may cause total net income to decrease when deciding whether or not to eliminate an unprofitable segment?
A. sales.
B. variable expenses.
C. contribution margin.
D. fixed expenses.

18. A cost that cannot be changed by any present or future decision is a(n):
A. fixed cost.
B. opportunity cost.
C. sunk cost.
D. variable cost.

19. When a company has limited resources, the product to make and sell is the one with the highest:
A. contribution margin per unit.
B. contribution margin per unit of limited resource.
C. contribution margin rate.
D. markup.

20. Which one of the following is an important assumption that is made when considering the
decision to accept an order at a special price?
☐ A. There are no mixed costs.
☐ B. The firm is not currently operating at full capacity.
☐ C. Overall economic growth will continue at historical rates.
☐ D. The firm will continue to receive similar orders in the future.

21. Another name for the option to buy a component from a supplier is
☐ A. vertical integration.
☐ B. supply chain management.
☐ C. outsourcing.
☐ D. insourcing.

22. When a firm operates in a multiple-product environment, joint costs should be treated as ________ and ignored in the decision to sell or process further.
☐ A. opportunity costs
☐ B. variable costs
☐ C. incremental costs
☐ D. sunk costs

23. When a segment of a business is eliminated, the fixed costs allocated to the eliminated segment
☐ A. disappear.
☐ B. must be absorbed by the remaining segments.
☐ C. are written off.
☐ D. are allocated to the firm that buys the eliminated segment.
24. Costs incurred prior to the split-off are
A. fixed costs.
B. joint costs.
C. opportunity costs.
D. relevant costs.

25. Which of the following is a true statement about qualitative factors involved in making decisions involving incremental analysis?
A. Qualitative factors should be carefully considered in making decisions involving incremental analysis.
B. There are no negative, qualitative effects of eliminating one of a firm's manufacturing plants.
C. Because qualitative factors cannot be easily measured, they should be ignored in making decisions involving incremental analysis.
D. The morale of employees will improve with a decision to eliminate a segment since they will have more responsibility.

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Grade the Test

0% (0 out of 25 correct)

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